

# General Fund Financial Forecast 2003-2008



October 8, 2002



# Purpose

Assess Redmond's ability to respond to fiscal and operational challenges over the next 6 years in the context of a changing economic environment and assuming no new taxes



# Fiscal and Operational Challenges Facing the City

- Economic Environment
  - The economic downturn – how severe and how long?
- General Fund Revenues
  - Base is very vulnerable during economic downturns
  - Supports services most visible to the community
- General Fund Expenditures
  - Not as elastic as revenues
  - Major cost drivers
    - Operational
    - Capital
    - External factors

# Economic Environment

- Nation currently mired in the aftermath of an economic recession that started March 2001
  - 1<sup>st</sup> recession in 10 years (since 1990-91)
  - Similar to the 1981-82 recession, but with a longer trough
  - Recovery not expected until early 2004
- Potential risk of country falling into a second recession

Recessionary periods:	Duration (months)	Recession characteristics
Aug 1957 - Apr 1958	8	Double dip
Apr 1960 - Feb 1961	10	
Dec 1969 - Nov 1970	11	Double dip
Nov 1973 - Mar 1975	16	
Jan 1980 - July 1980	6	Double dip
July 1981 - Nov 1982	16	
July 1990 - Mar 1991	8	Single dip
Mar 2001 - ??		



# Economic Environment

- Recession had greater effect on the State and the Puget Sound Region than the rest of the nation
  - Two areas of specialization have been hard hit
    - Aerospace
      - Fundamental changes in airline travel and aerospace industry.
    - High technology
      - Collapse of high technology sector in Puget Sound region
      - Result: Loss of high paying jobs in Puget Sound corridor
  - Result: State has highest unemployment rate in nation
    - Total job losses: 50,100 jobs between Aug 2001 and now
    - Most of the job losses concentrated in the Puget Sound area

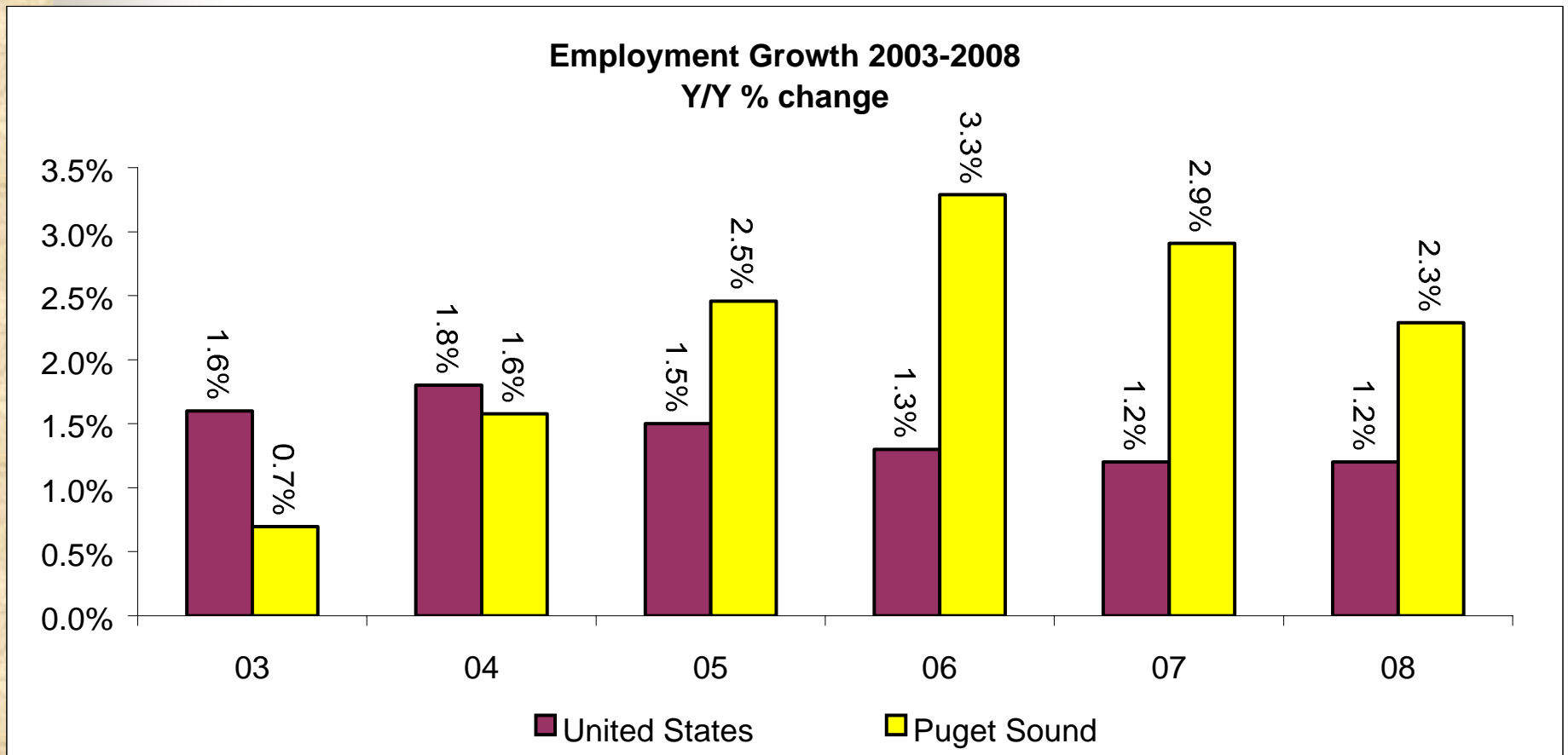


# Economic Environment

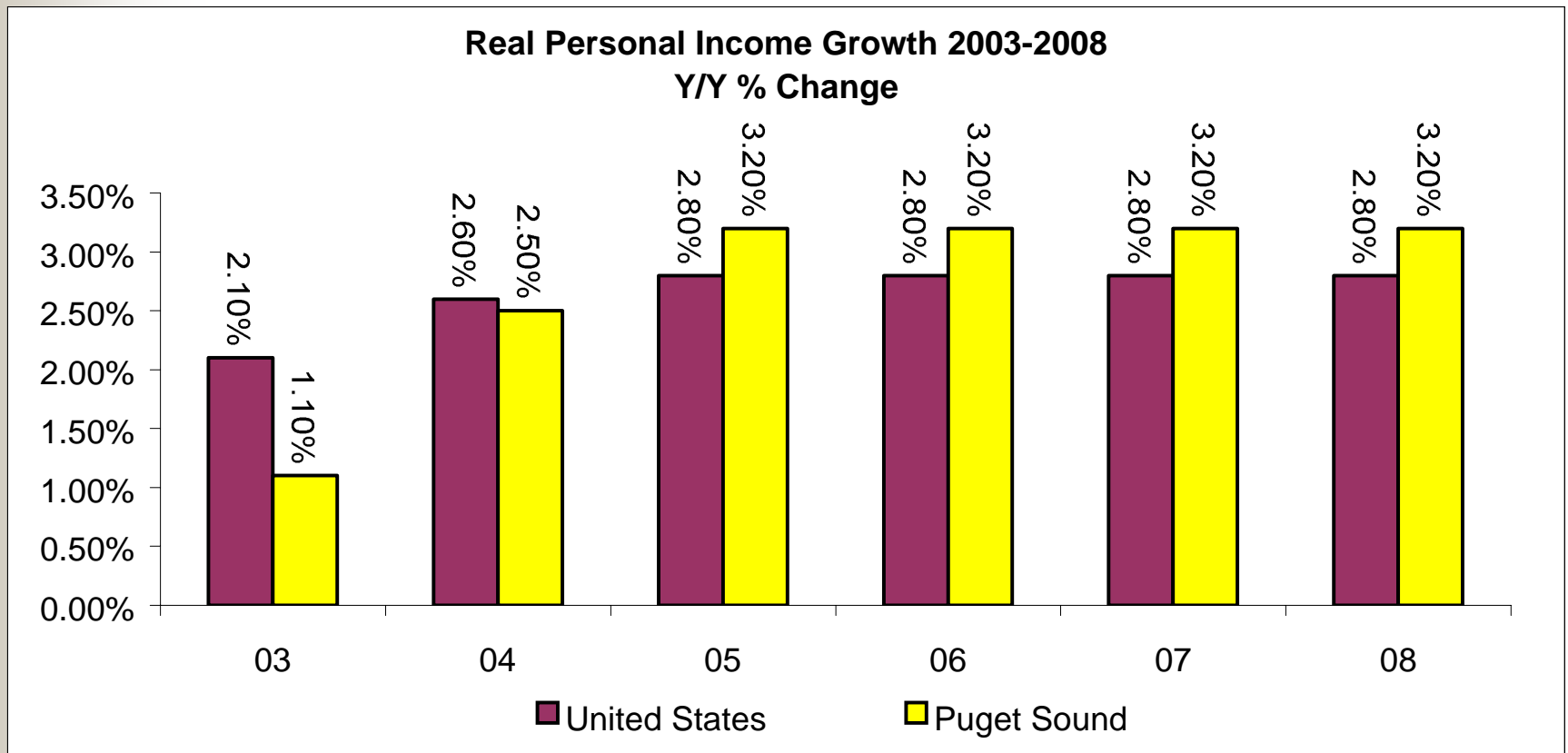
- When will Puget Sound economy recover?
  - Washington State/Puget Sound: late 2004 or early 2005
    - Traditionally lag behind national economic trends by 6 to 9 months
    - When economic growth resumes, Puget Sound expected to outpace the nation



# Employment Forecast US v Puget Sound



# Real Personal Income Forecast US v Puget Sound





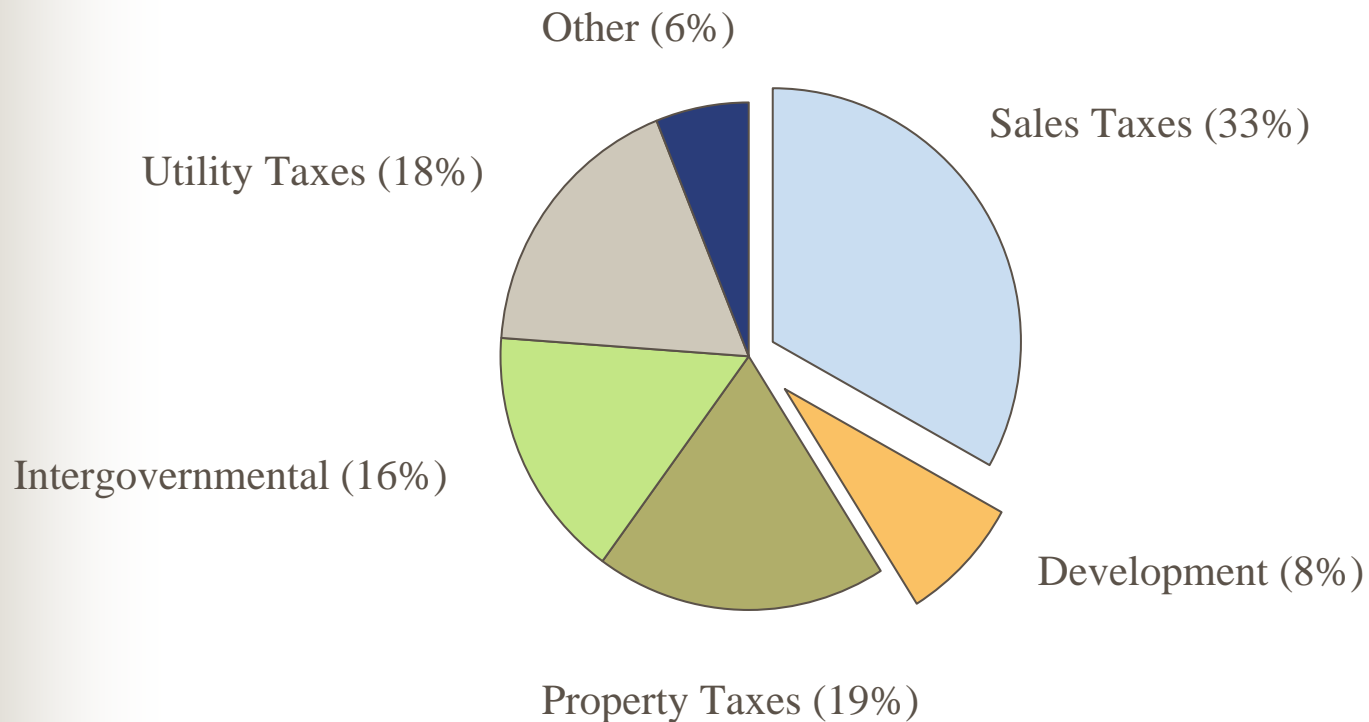


# Economic Environment

- Redmond recovery expected to coincide with Puget Sound's – late 2004 or early 2005
  - High technology base still strong
    - Microsoft still adding to its employment base
  - New retailers/hotel
    - 2002 – Home Depot, Fred Meyer
    - 2003 – Cost Plus Imports, Bon Marche, Marriott Hotel

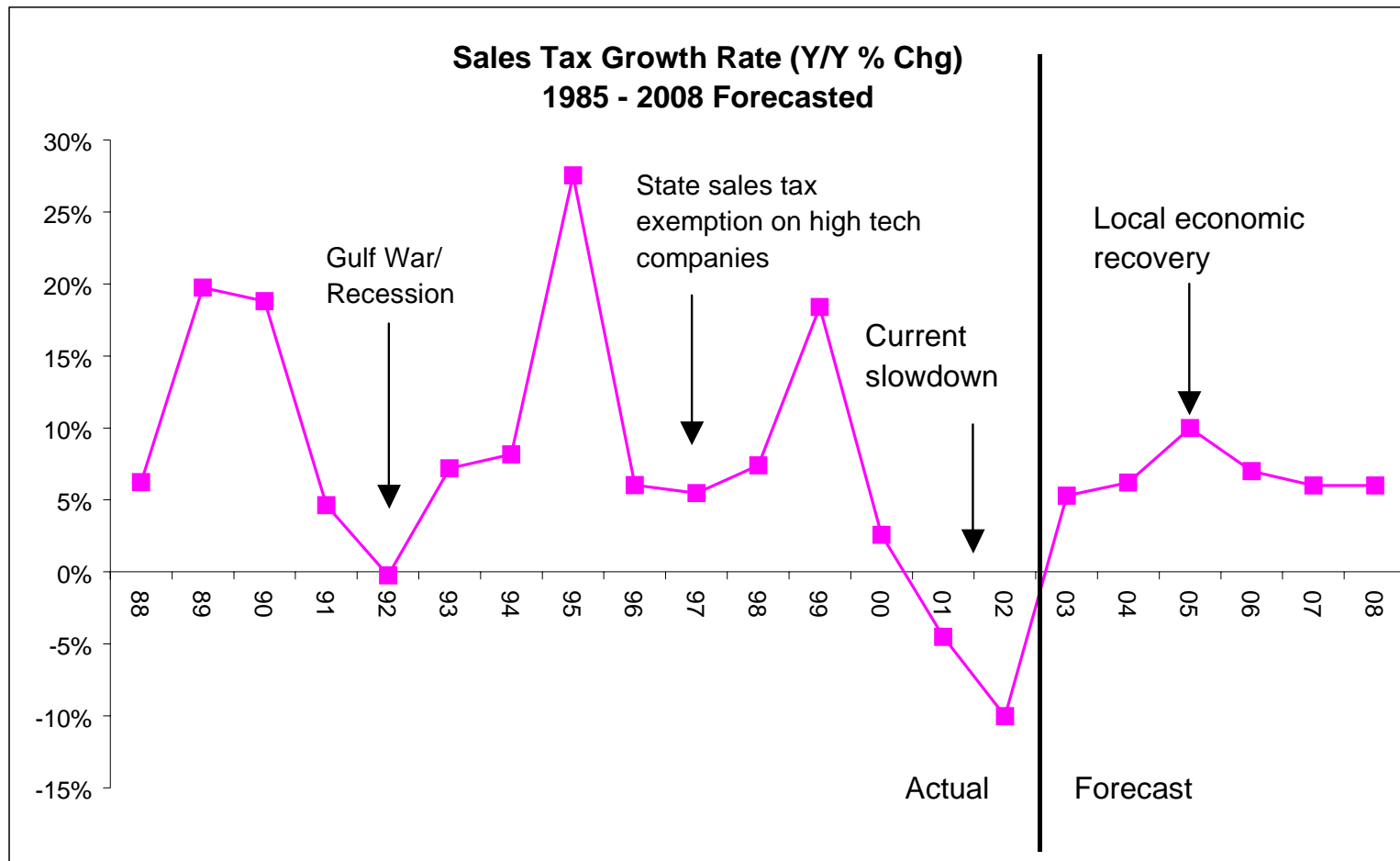
# General Fund Revenues

- Nearly half of General Fund revenues are very vulnerable during an economic downturn



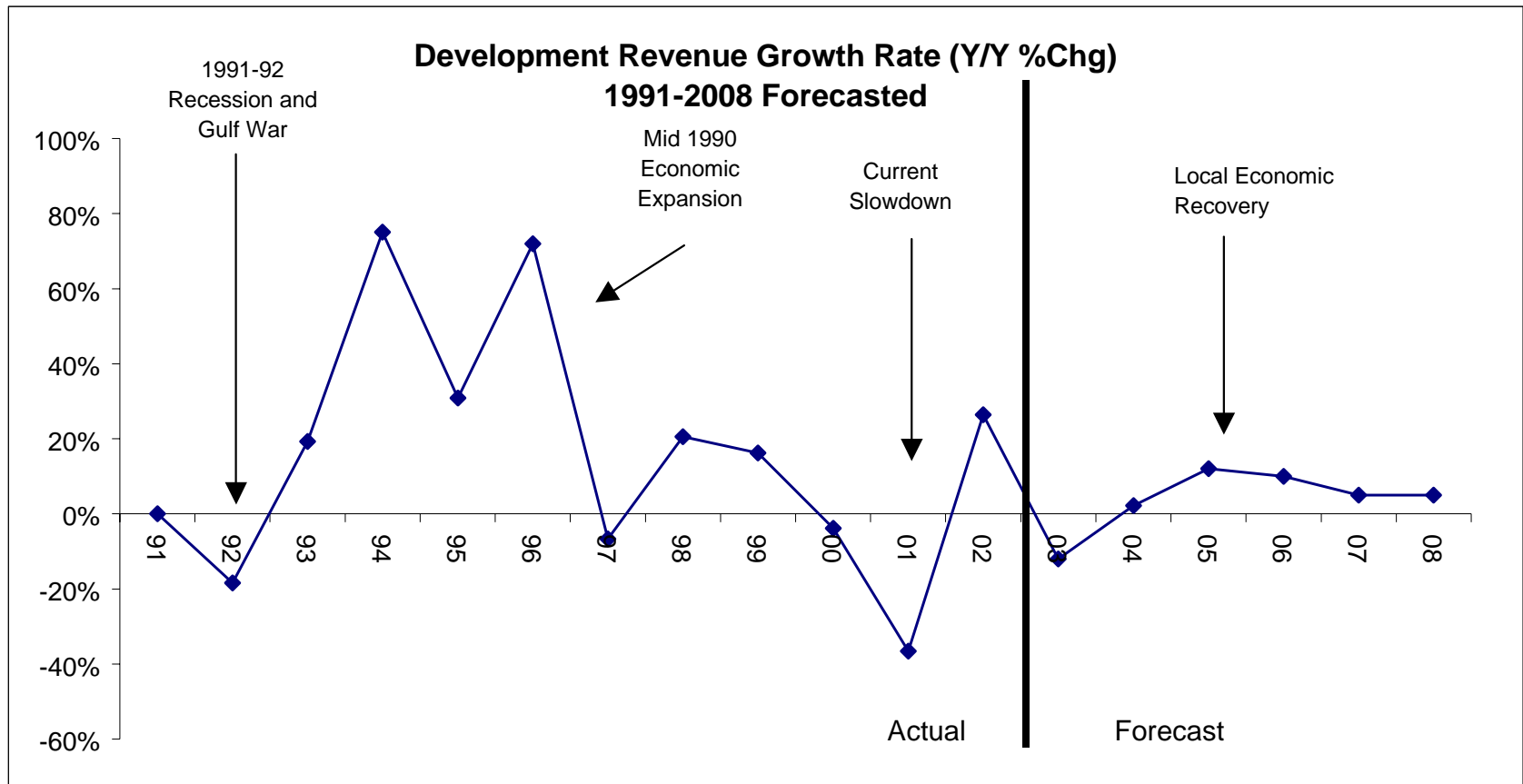
# General Fund Revenues

## Sales Taxes



# General Fund Revenues

## Development Revenues





# General Fund Revenues

- Performed sensitivity analysis to determine how changes in growth assumptions affect sales and development revenues

Percentage Change	2003-2008 Revenue Change
+/- 1%	\$1,206,000



# General Fund Expenditures

- Not as elastic as revenues
- 62% of expenses represent salary and benefits

## Major cost drivers:

- Operational
- Capital
- External Factors





# General Fund Expenditures

## Operational Cost Drivers:

- Health benefits projected to grow 11%-15% per year
- Overtime growing at current rate of 11%
- Insurance premiums rose substantially in the aftermath of Sept 11
- Substantial growth in City between 1990 and 2002



# General Fund Expenditures

## Operational Cost Drivers (continued)

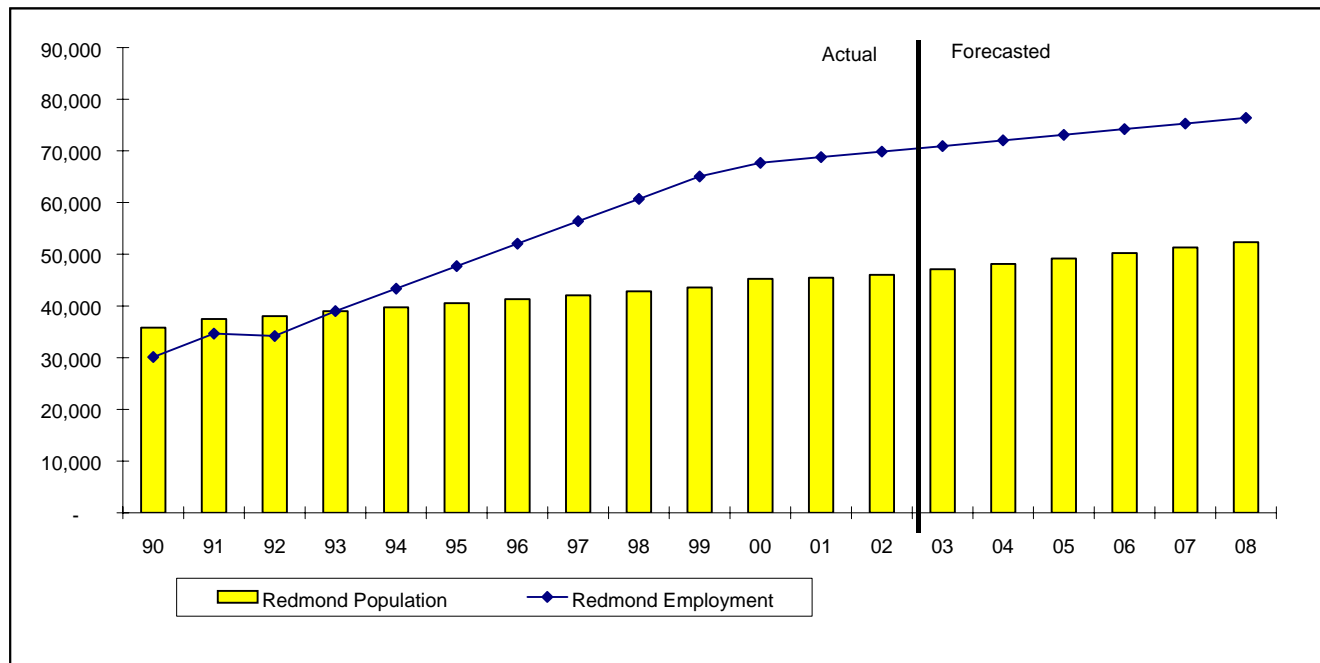
- Substantial growth between 1990 and 2002

Redmond Statistics	1990	2002	% Chg
Residential Population	35,800	46,040	29%
Employment	30,101	69,870	132%
Commercial sq. ft.	16.9M	26.7M	58%

# General Fund Expenditures

## Operational cost drivers (continued)

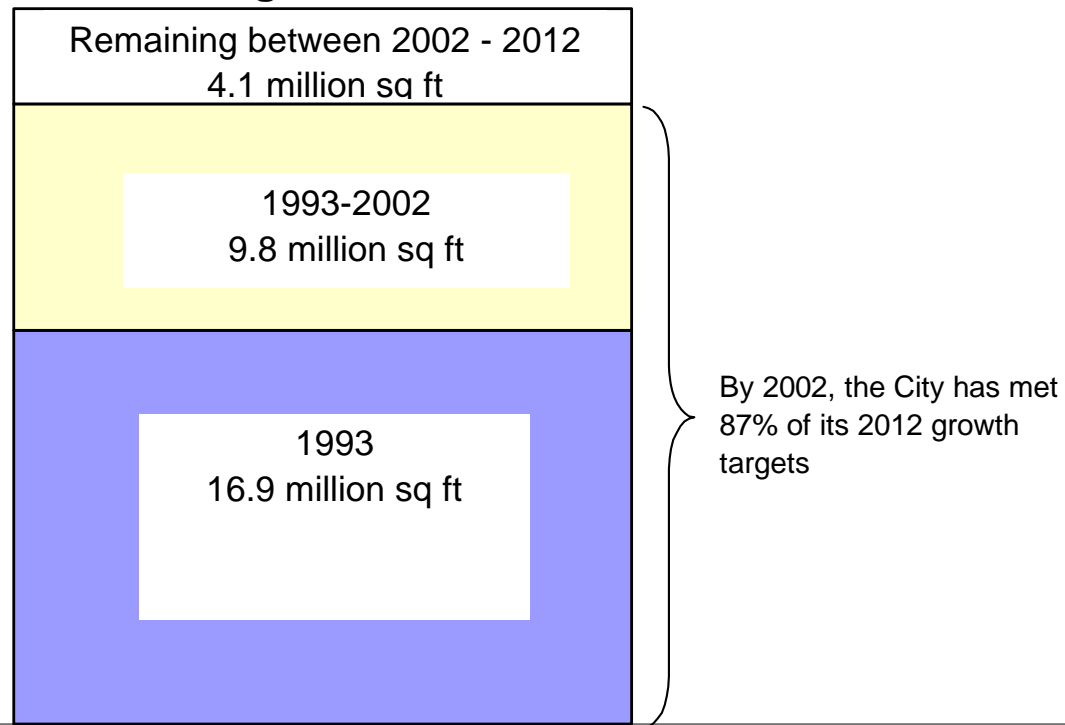
- Growth continuing into the future
  - Approximately 1,000 new residents and 1,100 new employees added per year



# General Fund Expenditures

## Growth Targets vs. Actual

### Commercial Square Footage 2012 Target: 30.8 million



Note: Growth target was revised to take into account zoning changes in Overlake area.



# General Fund Expenditures

## Capital Cost Drivers

- City Hall
  - One of the most significant issues in the next six years
  - Total cost of project including parking garage: \$31.6 million
  - Council direction to use 63-20 financing
    - Annual debt service of \$2.5 million first five years and \$1.8 million thereafter
    - Currently have \$11.3 million set-aside in CIP to pay project costs and debt service
    - Annual M&O approximately \$700K; offset by cancellation of existing leases and M&O savings from demolishing existing City Hall and Technology Center
  - Staff has identified potential funding sources from the CIP (sales tax on construction and general government CIP monies) to pay debt service
    - Council has yet to approve these sources



# General Fund Expenditures

## External cost drivers

- Continued divestiture of regional services
  - Ongoing fiscal crisis at State and County levels
  - Significant policy decisions made by King County in 2002 to control future costs
    - No longer accept City misdemeanor prisoners in KC jails
    - Mothball parks and pools located in incorporated areas
    - Terminate District Court services in 2005, unless full cost recovery
    - Eliminate general funding for Human Services
- Ballot initiatives





# General Fund Expenditures

## External cost drivers (continued)

- Increasing number of initiatives in recent years
  - I-601 (state spending limit)
  - R-47 (property tax growth limited to IPD)
  - I-747 (property tax growth limited to 1%)
  - I-695 (\$30 car tabs)



# General Fund Expenditures

## External cost drivers (continued)

- Two significant initiatives on November ballot
  - Initiative 776
    - Repeals \$15 local option vehicle license fee
    - Significant fiscal impact to governments over next six years
      - \$121M – State
      - \$203M – King, Snohomish, Pierce, Douglas Counties
      - \$432M – Sound Transit
      - \$2.4M – Redmond Transportation CIP (2003-08)



# General Fund Expenditures

## External cost drivers (continued)

- Initiative 790
  - Changes how LEOFF II pension fund is managed
    - Shifts control to a new governance body
    - Provides great deal of latitude for benefit enhancements
  - Fiscal impact to Redmond: \$818K in 2003 rising to \$3.15 million as early as 2004 depending on the extent benefits are enhanced by new governing board



# Fiscal and Operational Challenges Facing the City

## Summary

- Economic Environment
  - How severe? How long?
- General Fund Revenues
  - Base is very vulnerable to economic downturns
- General Fund Expenditures
  - Not as elastic as revenues
  - Major cost drivers putting upward pressure on expenses



# General Fund Summary of Major Revenue Assumptions

- No property tax increases
- Sales Taxes and Development revenues rebounding in 2005 coinciding with anticipated local economic recovery
- Fire Services Contracts
  - Assumes continuation of services for Fire District #34 and Eastside Fire & Rescue/Sammamish
  - Cost of services analysis required upon contract expiration
- No further motor vehicle excise tax (MVET) backfill from State



# General Fund Summary of Major Expenditure Assumptions

- Real wage growth forecasted at 1.9%
- FTEs
  - 13 FTEs for Fire Station 17 added mid-year 2005
  - 3.3 net new FTEs for general government purposes (2003-08)
    - Reflects 11.7 FTEs frozen in 2003-2004 budget and 15 new FTEs added between 2006-08
  - Overtime funding increased modestly assuming cost containment strategies put in place
    - If no systematic changes, budget will increase dramatically





# General Fund Summary of Major Expenditure Assumptions

## ■ Benefits

- Medical increases at 7% per year plus new employees
  - Assumes cost containment measures are put in place through benefit design study and current contract negotiations
  - Claims costs could grow 11-15% or an additional \$169,000-367,000 annually without implementation of cost containment measures
- Does not include potential impact of I-790
- Assumes debt for new City Hall will be paid by CIP
- Assumes City continues to work with King County on divestiture issues to identify solutions that will require little or no city resources

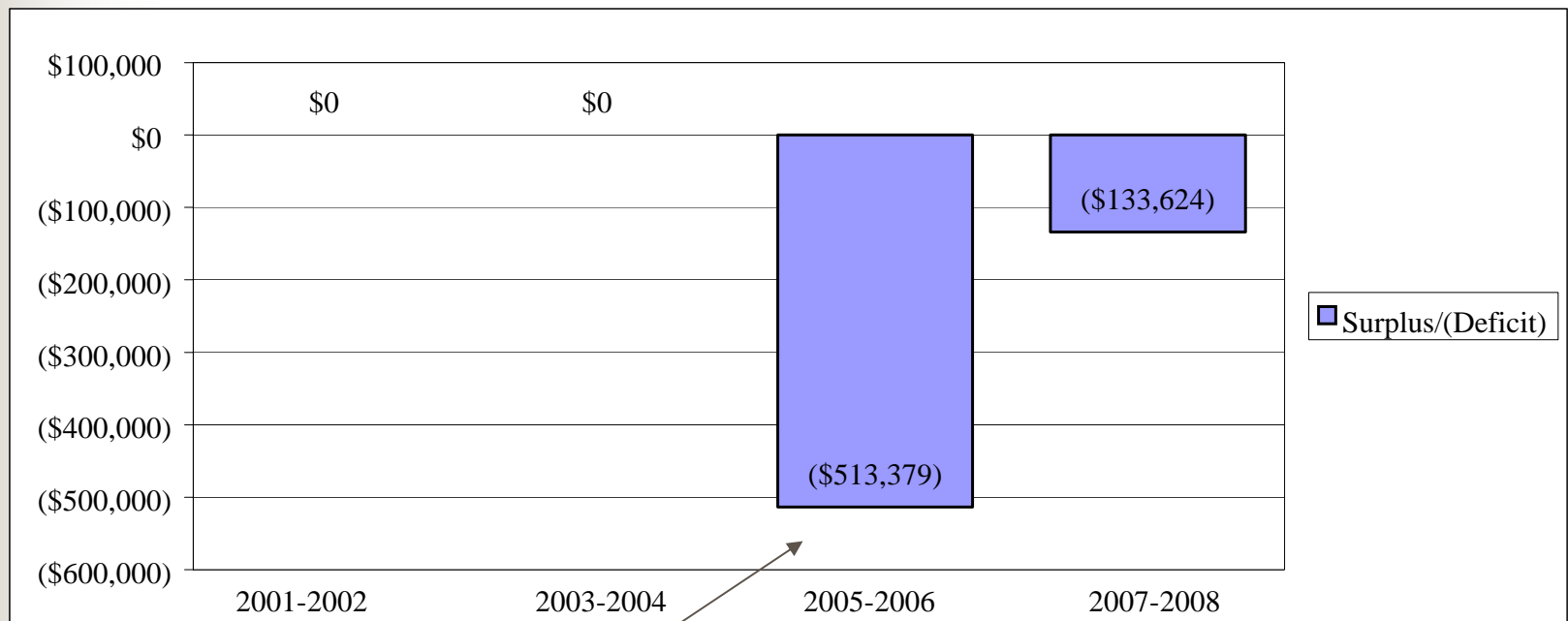


# General Fund Summary of Major Expenditure Assumptions

- Assumes continuation of City's current fiscal policies
  - Operating reserves
  - CIP transfer at 5% of revenues
    - Assumes Sales Tax on Construction is deposited directly into the CIP
  - Capital equipment reserve transfer

# Forecast Results

## Biennial General Fund Projected Surplus/(Deficits)



Primarily due to addition of 13 firefighters (\$1.2 million) for NE Education Hill Fire Station #17 in mid-2005



## Potential risk factors

- Economy
- Cost containment for health benefits and overtime
- Passage of I-790
- New City Hall funded from General Fund



# Conclusions and Next Steps

- Fire Station #17: City will be challenged to add 13 new Firefighters for NE Education Hill Fire Station in 2005 within existing revenues
- Cost Containment: City needs to aggressively implement cost containment strategies for health benefits and overtime
- City Hall: City needs to consider alternative funding sources for new City Hall that does not require General Fund resources
- Divestiture of Services: City cannot afford to assume responsibility for services traditionally provided by State and King County
- Initiative 790: Passage of I-790 will result in severe financial hardships for State and Local Governments according to State Actuary



End of Presentation